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Message Text

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70
ACTION EB-06

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SS-15 USIA-06 FRB-01 XMB-02 OPIC-03 CIEP-01 LAB-01

SIL-01 OMB-01 SAM-01 INT-05 OES-02 /095 W
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FM AMEMBASSY RABAT
TO SECSTATE WASHDC 3722
INFO USINT ALGIERS
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMEMBASSY TUNIS

C O N F I D E N T I A L RABAT 5418

E.O. 11652: GDS
TAGS: ECEM ECON EEWT EMIN ENRG MO
SUBJECT: MOROCCAN PHOSPHATES: IMPLICATIONS FOR US POLICY

1. SUMMARY: DESPITE POSSIBILITY OF TEMPORARY BREAK IN WORLD PHOSPHATE MARKET A COUPLE OF YEARS FROM NOW LONG-TERM PROSPECT IS THAT WORLD WILL BECOME INCREASINGLY DEPENDENT ON MOROCCAN PHOSPHATES. WITHIN A DECADE EVEN US IS LIKELY TO BE HEAVILY DEPENDENT ON PHOSPHATE IMPORTS, AND MOROCCO APPEARS ONLY ADEQUATE SOURCE OF SUPPLY (PARTICULARLY IF IT CONTROLS SPANISH SAHARAN RESERVES BY THEN). THE USSR IS ALREADY NEGOTIATING FOR PREFERRED ACCESS TO MOROCCAN PHOSPHATES. THIS MESSAGE REPORTS THESE AND RELATED FINDINGS BY US BUREAU OF MINES EXPERT WHO RECENTLY VISITED MOROCCO. SOME POSSIBLE IMPLICATIONS FOR US POLICY ARE ALSO SURVEYED. END SUMMARY.

2. AS A RESULT OF A RECENT VISIT TO MOROCCO AND OTHER NORTH AFRICAN PHOSPHATE PRODUCING COUNTRIES BY US BUREAU OF MINES
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PHOSPHATE EXPERT WILLIAM F. STOWASSER, A NUMBER OF IMPORTANT

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ECONOMIC CONSIDERATIONS HAVE SURFACED, SOME OF THEM RATHER UNSETTLING.

A. COMING US DEPENDENCE ON PHOSPHATE IMPORTS: LONG-TERM OUTLOOK. ACCORDING TO STOWASSER, US BUREAU OF MINES BELIEVES US WILL BECOME RELIANT ON LARGE SCALE IMPORTS OF PHOSPHATES WITHIN NEXT 8-10 YEARS TO SUSTAIN AGRICULTURAL AND INDUSTRIAL OUTPUT. PHOSPHATE, POTASH, AND NITROGEN ARE THREE ELEMENTS ESSENTIAL TO MODERN AGRICULTURE. SUBSTITUTES AND SYNTHETICS CANNOT PROVIDE SOLUTION SINCE EVOLUTION HAS BUILT NEED FOR THESE ELEMENTS INTO LIFE PROCESS. US HAS ADEQUATE SUPPLY OR ACCESS TO POTASH AND NITROGEN, BUT MOROCCO AND SAHARA POSSESS ONLY PHOSPHATE RESERVES LARGE ENOUGH TO SATISFY US AND WORLD NEEDS ONCE MAJOR US STRATA WORKED OUT. ASSESSMENT OF SPANISH SAHARAN DEPOSITS BASED ON DRILL HOLE DATA SUGGESTS THAT RESERVES ARE OF SAME ORDER MAGNITUDE AS MOROCCAN RESERVES. MOROCCAN ACQUISITION WOULD THUS GIVE MOROCCO POTENTIAL CONTROL OVER SOME 80 PER CENT OF NON-US, NON-SOVIET PHOSPHATE PRODUCTION.

B. MEDIUM-TERM PRICE PROSPECTS PROBLEMATIC. MEDIUM-TERM OUTLOOK FOR MOROCCO IS VERY DIFFERENT, ACCORDING STOWASSER. AFTER SEVERAL YEARS OF DEPRESSED PRICES AND LITTLE NEW WORLD CAPACITY, SEVERAL COUNTRIES ARE NOW PROJECTING MAJOR ADDITIONAL OUTPUT OVER NEXT YEAR OR TWO. AFTER TALKS WITH MINISTRY AND PHOSPHATE MINING OFFICIALS, HE FEARS CYCLICAL PATTERN OF 1960'S MAY BE REPEATING ITSELF WITH HIGH PROBABILITY SOME MAJOR DOWNWARD PRICE READJUSTMENTS. TIMING DIFFICULT TO PREDICT BUT LIKELY OCCUR BETWEEN 18 MONTHS AND TWO AND ONE HALF YEARS. THIS WOULD BE BAD NEWS FOR COUNTRY WHICH HAS AVOIDED WORST EFFECTS OF WORLD INFLATION AND EFFECTS OIL PRICE RISE ONLY BY REASON OF HIGH PHOSPHATE PRICES.

C. SOVIET INTEREST IN MOROCCAN PHOSPHATES. NEW LIGHT ALSO CAST ON SOVIET INTERESTS IN MOROCCO. ACCORDING TO STOWASSER, USSR HAS PLACED STRINGENT RESTRICTIONS ON PHOSPHATE EXPORTS TO EASTERN EUROPE AND ELSEWHERE IN RESPONSE OWN PROBLEMS OF RISING DEMAND AND DEPLETION BETTER GRADE RESERVES. SOVIETS ALSO LAUNCHING EFFORT TO NEGOTIATE CO-PRODUCTION OR JOINT VENTURE AGREEMENT WITH GOM TO PRODUCE 10 MILLION TONS PER ANNUM BY 1985. (THIS SUBSEQUENTLY CONFIRMED BY ECOUN IN TALKS WITH CHIEF SOVIET COMMERCIAL DELEGATION.) THIS WOULD PROVIDE USSR WITH PRODUCTION EQUIVALENT

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TO ONE-QUARTER TOTAL MOROCCAN OUTPUT IN 1985, OR HALF OF CURRENT PRODUCTION.

D. WATER AND SAHARAN PHOSPHATES. STOWASSER VISIT ALSO PROVIDED FRESH HYPOTHESES REGARDING MOROCCAN INTENTIONS TO RECOVER SAHARA REGION BEYOND OBVIOUS CONSIDERATION OF GAINING ANOTHER 40 PERCENT OF WORLD'S NON-US, NON-SOVIET RESERVES (SEE ABOVE). STOWASSER INFORMED EMBASSY THAT MAJOR IMPEDIMENT TO INCREASED OUTPUT BOUKRAA MINE OPERATED BY SPANISH HAS BEEN INSUFFICIENT

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FRESH WATER TO PROCESS PHOSPHATE DUE TO PROBLEMS WITH DESALINIZATION PLANT. KING HASSAN'S PREVIOUSLY REPORTED CRASH PROGRAM TO INVOLVE US FIRMS IN DEVELOPMENT MAJOR DESALINIZATION PLANT IN TARFAYA AREA NEAR SAHARA BORDER SEEN EARLIER ONLY AS EFFORT ATTRACT ADDITIONAL POPULATION TO BORDER REGION. IT COULD, HOWEVER, ALSO MEAN--WHETHER OR NOT THIS IS GOM'S PRESENT INTENTION--THAT GOM INTERESTED IN DEVELOPING CAPABILITY TO SUPPORT RAPID EXPANSION BOUKRAA OUTPUT BY PIPING WATER ACROSS BORDER.

3. IN-COUNTRY POLICY IMPLICATIONS. SEVERAL OF FOREGOING POINTS WILL BE AFFECTED, AT LEAST DURING MEDIUM-TERM, BY EVOLUTION OF VARIOUS SUPPLY/DEMAND CONSIDERATIONS. DEPARTMENT AND EMBASSY WILL THUS WISH TO KEEP THEM UNDER CONTINUOUS REVIEW. NEVERTHELESS, IMPORTANCE OF MOROCCO AS EVENTUAL SOURCE OF SUPPLY FOR US AND USSR HAS EVIDENT IMPLICATIONS FOR BROADER US-MOROCCAN AND MOROCCAN-SOVIET RELATIONS. SIMILARLY, POTENTIAL MOROCCAN CONTROL OVER ACCESS TO MAJOR SAHARAN PHOSPHATE RESERVES, AS WELL AS OVER PRICE FOR PHOSPHATIC FERTILIZERS AND CHEMICALS, HAS IMPORTANT IMPLICATIONS FOR WORLD FOOD PRODUCTION. FINALLY, MEDIUM-TERM PRICE OUTLOOK SUGGESTS SOME USAID AND IFI CONTINGENCY PLANNING TO PERMIT QUICK TURNAROUND ON AID REDUCTIONS IN EVENT SERIOUS PRICE BREAK DOES OCCUR.

4. BROADER IMPLICATIONS FOR NEAR EAST POLICY. PHOSPHATE SITUATION APPEARS TO PORTEND NEW COMMUNITY OF ECONOMIC INTERESTS BETWEEN MOROCCO AND OIL PRODUCING ARAB COUNTRIES. SULPHURIC ACID AND AMMONIA, BOTH OIL REFINERY BIPRODUCTS, ARE ESSENTIAL TO PROCESSING PHOSPHATE ROCK INTO TRIPLE-SUPER PHOSPHATE AND DIAMMONIUM PHOSPHATE. PRICE OF THESE PHOSPHATIC FERTILIZERS HAS RISEN EVEN MORE STEEPLY THAN BASIC PHOSPHATE ROCK, PROVIDING INCENTIVE FOR LOCAL PROCESSING TO CONFIDENTIAL

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MAXIMIZE REVENUES. THUS IT IS LIKELY TO BE ONLY A MATTER OF TIME UNTIL MOROCCO AND PERISAN GULF STATES DEVELOP ARRANGE-MENTS FOR FINANCING CHEMICAL COMPLEXES AT BOTH ENDS OF MEDITERRANEAN. THIS WOULD PERMIT HAULING SULPHURIC ACID AND AMMOUNIM TO MOROCCO, BACKHAULING PHOSPHATE ROCK BALLAST TO GULF. GULF STATES WOULD THEN BE POSITIONED TO PROVIDE FERTILIZERS TO JAPAN AND ASIA WHILE MOROCCO COULD SERVICE EUROPE AND NORTH AND SOUTH AMERICA. THIS POTENTIAL RELATION-SHIP APPEARS TO US TO CONTAIN NUMEROUS IMPLICATIONS WHICH WE ARE ONLY ABLE TO HINT AT HERE, E.G.: CONSIDERABLE OPPORTUNITIES FOR US CHEMICAL AND DESALINATION INDUSTRIES; ECONOMIC FACTORS SUPPORTING EASTERN ARAB INTEREST IN EXPEDITING DECOLONIZATION OF SPANISH SAHARA; INCREASED ARAB ROLE IN WORLD FOOD PRODUCTION, WITH ARAB PHOSPHATES COMING TO PLAY GLOBAL ROLE IN WORLD FOOD PICTURE SOMEWHAT COMPARABLE TO

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PRESENT ROLE ARAB OIL PLAYS IN WORLD ENERGY PICTURE; INCREASING POWER AND UNITY WITHIN ARAB WORLD, BASED INCREASINGLY ON SENSE OF CONFIDENCE, POWER, AND INTEREST IN MAINTAINING STATUS QUO, DECREASINGLY ON SENSE OF RESENTMENT, INJUSTICE, AND WEAKNESS.
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